KAY JEWELRY STORES, INC.

Annual Report for the Fiscal Year Ended June 30

1960

This design, appearing for the first time on the front cover of this, the 44th annual report of Kay Jewelry Stores, Inc., follows the basic design of the service pins awarded to the Company's employees after 5, 10, 15, 20 and 25 years. The letters stand for Service, Loyalty, Friendship and Partnership.

ANNUAL REPORT

Fiscal Year Ended June 30, **1960**

KAY JEWELRY STORES, INC.

1328 NEW YORK AVENUE, N.W., WASHINGTON 5, D. C.

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UNITS IN THE FOLLOWING CITIES—*AS OF JUNE 30, 1960*

Abilene, Texas
Alexandria, Virginia
Allentown, Pennsylvania
Anderson, Indiana
Arlington, Virginia (2)
Atlanta, Georgia (3)
Baltimore, Maryland
Bayonne, New Jersey
Birmingham, Alabama
Bladensburg, Maryland
Boston, Massachusetts
Brockton, Massachusetts
Buffalo, New York
Canton, Ohio
Charleston, West Virginia
Charlotte, North Carolina (2)
Chattanooga, Tennessee
Columbus, Ohio (4)
Corpus Christi, Texas (2)
Duncan, Oklahoma
Enid, Oklahoma
Evansville, Indiana
Fort Wayne, Indiana
Framingham, Massachusetts
Gary, Indiana
Greensboro, North Carolina (2)
Hagerstown, Maryland
Hammond, Indiana
Hartford, Connecticut
Huntington, West Virginia (2)
Hyattsville, Maryland
Indianapolis, Indiana (3)
Jacksonville, Florida
Jeffersonville, Indiana
Jersey City, New Jersey (2)
Kansas City, Kansas
Kansas City, Missouri
Knoxville, Tennessee
Lancaster, Pennsylvania
Lawrence, Massachusetts
Louisville, Kentucky (6)
Lubbock, Texas
Lynn, Massachusetts
Madison, Indiana
Madison, Tennessee
Malden, Massachusetts
Marietta, Georgia
Midwest City, Oklahoma
Nashville, Tennessee
New Bedford, Massachusetts
New Britain, Connecticut
New York, New York (10)
Norwich, Connecticut
Odessa, Texas
Oklahoma City, Oklahoma (3)
Paramus, New Jersey
Peoria, Illinois
Ponca City, Oklahoma
Providence, Rhode Island
Quincy, Massachusetts
Reading, Pennsylvania (2)
Salem, Massachusetts
Shawnee, Oklahoma
Sherman, Texas
South Bend, Indiana
Springfield, Illinois
Stamford, Connecticut
St. Petersburg, Florida
Suitland, Maryland
Toledo, Ohio (2)
Waltham, Massachusetts
Washington, D. C. (9)
Waterbury, Connecticut
Wheaton, Maryland
Winston-Salem, North Carolina (2)
Woonsocket, Rhode Island
Worcester, Massachusetts (2)
York, Pennsylvania

** Figure in parenthesis indicates number of stores in each city.*

TO OUR STOCKHOLDERS:

Alert to the vast merchandising changes that are currently developing, and after considerable study, it was concluded that it would be advantageous to the Company, in the long run, to enter the field of the so-called Discount Department Stores that are currently opening all over the United States. From published figures we know that they have done billions of dollars worth of volume during the past twelve months; therefore, we felt it incumbent to be certain we were not missing the advent of a new merchandising vehicle.

We have made five basic agreements with companies that we felt were the best financed, most reputable, and no doubt the most durable, to take a jewelry department in each major unit currently open or to be opened by these companies. In some we have leased not only the jewelry department, but also the camera department; and in others we have leased the jewelry, camera and radio departments.

Last month we were operating in five major units of these Discount Department Stores, each in a different city. Our current plans call for thirteen more departments in these Department Stores. By November 15, we anticipate operating leased departments in eighteen cities. Since this is basically experimental, and although we feel it will result in considerable profit, we have made no leases with these five major companies other than leases from year to year. No great contingent liability is thus accrued to the Company.

Naturally, we are interested in carrying on the basic operation of Kay through its 119 outlets. During the current year we purchased from others, eight operating jewelry stores. In addition, we built and opened five new stores. Two Kay Stores which were not in our original consolidation were recently added, namely, Charleston, and Huntington, West Virginia. At this writing there are six new stores under construction.

Net sales for the year ended June 30, 1960, were \$27,564,713 compared with \$24,364,643 a year ago. Net earnings were \$663,906 compared with \$1,121,382 for the preceding fiscal year. Even though we did approximately \$3,200,000 more volume, the expense thereof was considerably greater than a year ago. This trend is indicative of that which has taken place among the majority of retail ventures. However, in the case of Kay, we did expend additional advertising dollars as well as adding more personnel. It is true, also, that the thirteen new units and five leased departments have not, as yet, contributed to the overall profit picture but have added to the operational costs the expense of opening. It is understandable, too, that it required additional invested capital and inventories during this expansion.

We feel optimistic about the last quarter of the calendar year in that not only will we get the benefit of all the units previously opened, which to date have created simply a cost and not a profit, but we likewise will have eighteen departments operating during the Christmas Season which certainly should lend both volume and profit to the entire operation. The opening expenses, as well as the increased payrolls, will be absorbed by the reasonable expectancy of increased volume and the resultant profit.

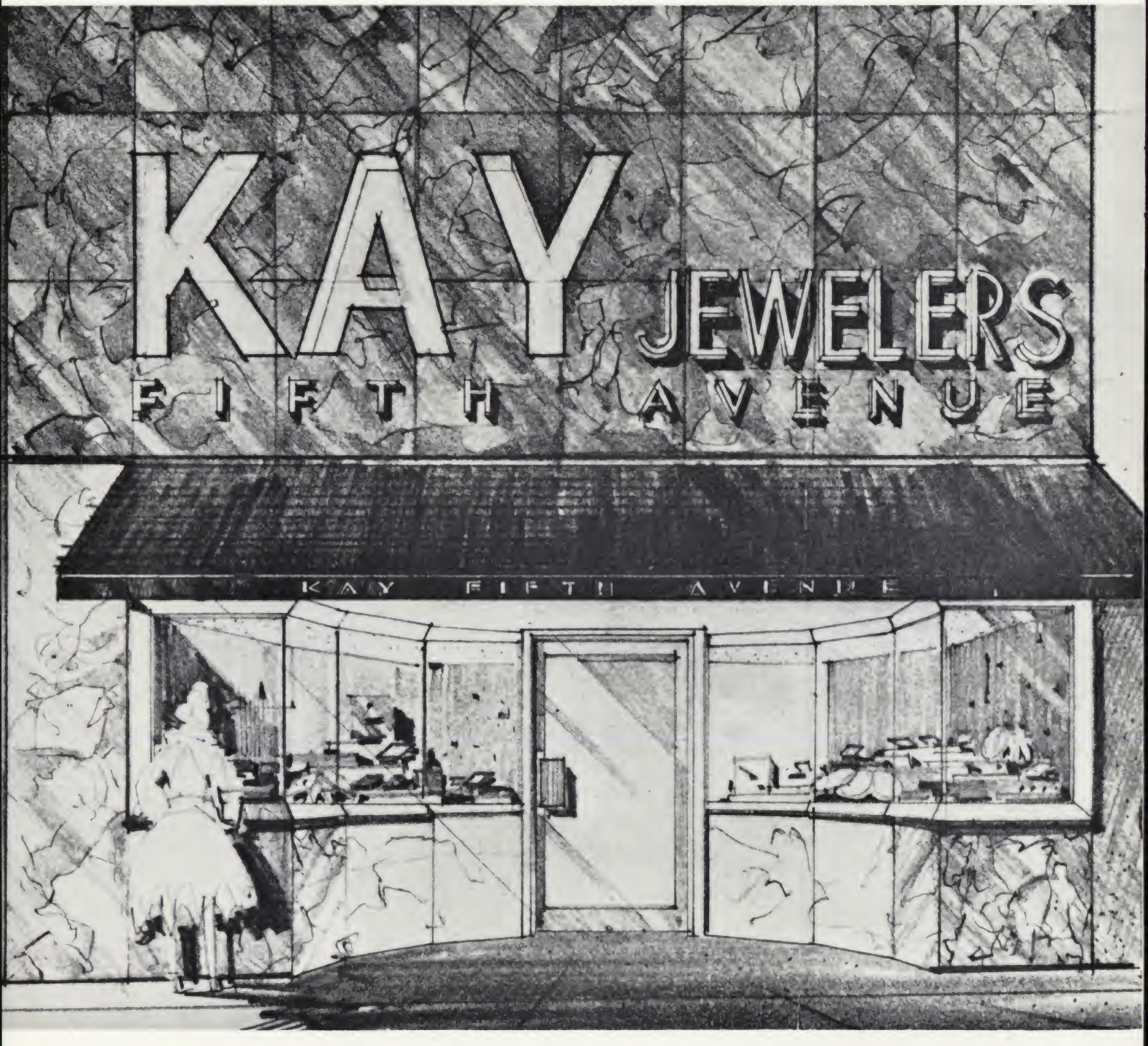
We wish to acknowledge gratefully the cooperation of our Directors, Officers, and Employees, as well as the interest of our Stockholders, who have contributed greatly toward our development and growth.

Respectfully submitted,

C. D. Kaufmann

C. D. KAUFMANN, *President*

SEPTEMBER 23, 1960


KAY JEWELERS
FIFTH AVENUE
KAY FIFTH AVENUE

As of June 30, 1960, Kay Jewelry Stores, Inc. operated 119 units in 22 states and in the District of Columbia, in addition to 22 affiliated units.

KAY STORES

During the fiscal year your Company opened units in Arlington, Virginia (2nd store), Charlotte, North Carolina (2nd store), Greensboro, North Carolina (2nd store), and Oklahoma City, Oklahoma (3rd store).

The Kay Stores in Charleston, West Virginia and Huntington, West Virginia, which were not in the original consolidation, were acquired. The five-store Gay Jewelry group was acquired. Gay had three stores in Louisville, Kentucky, one store in Jeffersonville, Indiana, and one in Madison, Indiana. There were already three Kay Stores in Louisville. The name, Gay, has been changed to Kay.

The Kay-Finlay unit on 59th Street in New York City was closed.

Your Company has six new stores under construction. The FIFTH AVENUE store in New York City, which will be opened in November, 1960

Happy throng at the opening day of a new Kay Jewelry Store.

Architect's drawing of new Kay Jewelry Store nearing completion on Fifth Avenue, New York.


LENOX



KAY JEWELERS

will be another step forward in extending Kay's merchandising of high quality diamonds, jewelry, and gifts. It will serve as a springboard for styling for the whole Kay organization.

LEASED DEPARTMENTS

During the year, experimental operations of leased departments resulted in the opening of locations in Anderson, Indiana; Canton, Ohio; Huntington, West Virginia; Kansas City, Kansas; Kansas City, Missouri; South Bend, Indiana; and Toledo, Ohio. As we gained experience in this new field of merchandising, an operating program was developed and we were able to determine the format for successful and profitable operation of leased departments. The departments in Anderson, Indiana; Kansas City, Kansas; Kansas City, Missouri; and South Bend, Indiana were closed. Those in Canton, Ohio, Huntington, West Virginia, and Toledo, Ohio were continued as they were found to conform with our policies established for opening and operating leased departments.

Since the end of the fiscal year, we have opened units in South Bend, Indiana and Wilmington, Delaware. By November 15, 1960, we anticipate having leased departments in a minimum of eighteen cities, with the five major companies with whom we have made basic lease deals to operate in their premises.

As opportunities present themselves during the coming year, we will continue to expand both our Kay units and leased departments. However, any expansion must be predicated on the ability of new units to meet the rigid requirements for location, operation, and the profitability we have set forth in our operating policies.

Showcase arrangements and window displays in Kay Jewelry Stores are designed by experts to show the high quality merchandise to the best advantage.

KAY JEWELRY STORES, INC.
and Subsidiary Companies

CONSOLIDATED

ASSETS

CURRENT ASSETS:		
Cash		$ 4,381,658
Marketable securities		73,519
Accounts and notes receivable:		
Trade instalment balances (a portion of which is due after one year)	$12,897,719	
Other trade accounts and notes	799,839	
	$13,697,558	
Less allowances for doubtful balances and unearned service fees	1,032,071	12,665,487
Merchandise inventories, on the basis of cost (first-in, first-out) or market, whichever is lower		7,911,712
Prepaid expenses		223,744
TOTAL CURRENT ASSETS		$25,256,120
OTHER ASSETS:		
Investments in, and advances to, associated companies—at cost (Note 1)	$ 552,281	
Cash surrender value of insurance on lives of officers	195,288	
Unamortized discount on 5½% note	110,622	
Miscellaneous	89,486	947,677
PROPERTY AND EQUIPMENT—at cost:		
Land	$ 100,000	
Building and building improvements, less accumulated depreciation of $74,171	584,274	
Leasehold and leasehold improvements, less accumulated amortization of $495,489	775,041	
Furniture and fixtures, less accumulated depreciation of $493,887	799,302	
Automobiles, less accumulated depreciation of $3,913	6,357	2,264,974
		$28,468,771

BALANCE SHEET June 30, 1960

LIABILITIES AND STOCKHOLDERS' INVESTMENT

CURRENT LIABILITIES:		
Notes and loans payable:		
Banks		$ 4,454,750
5½% note—current portion		350,000
Others		176,646
Trade accounts payable and accrued expenses		1,956,567
Federal income taxes (Note 2)		716,009
Federal excise and other taxes		979,837
TOTAL CURRENT LIABILITIES		$ 8,633,809
OTHER LIABILITIES:		
Deferred federal income taxes on gross margin (Note 2)	$ 1,586,692	
5½% note payable due in equal annual instalments of $350,000 commencing April 1, 1961 (Note 3)—less current portion	4,650,000	
Mortgage payable on land, building and building improvements, interest at 4½% (including $14,280 due within one year)—payable in quarterly instalments of $8,125 on account of principal and interest until maturity in 1976	455,198	6,691,890
MINORITY INTERESTS IN SUBSIDIARY COMPANIES:		
Preferred stock	$ 26,454	
Common stock and surplus	1,147,064	1,173,518
STOCKHOLDERS' INVESTMENT:		
Capital stock, par value $1 per share (Note 4):		
Authorized, 1,000,000 shares		
Issued and outstanding, 580,777 shares	$ 580,777	
Additional paid-in capital	9,879,970	
Retained earnings (Note 3)	1,508,807	11,969,554
		$28,468,771

See notes to financial statements.

KAY JEWELRY STORES, INC.
and Subsidiary Companies

CONSOLIDATED EARNINGS Year Ended June 30, 1960

INCOME:		
Net sales (including $2,865,775 to associated companies)		$27,564,713
Dividends, interest, service fees and other income		1,970,782
		$29,535,495
COSTS AND EXPENSES:		
Cost of sales (including buying and occupancy expenses)	$17,990,683	
Administrative, publicity and selling expenses	9,881,277	
Interest expense	503,294	
Other	43,326	28,418,580
		$ 1,116,915
Federal income taxes (Note 2)		345,500
		$ 771,415
Portion of earnings applicable to minority interests in subsidiary companies		107,509
NET EARNINGS		$ 663,906

See notes to financial statements.

CONSOLIDATED ADDITIONAL PAID-IN CAPITAL AND RETAINED EARNINGS Year Ended June 30, 1960

ADDITIONAL PAID-IN CAPITAL:		
Balance July 1, 1959		$ 9,455,853
Excess of book value of net assets of subsidiaries acquired over par value of common stock issued therefor		209,291
Excess of market value over par value of common stock issued as a dividend		214,826
Balance June 30, 1960		$ 9,879,970
RETAINED EARNINGS:		
Balance July 1, 1959		$ 1,759,427
Net earnings		663,906
		$ 2,423,333
Dividends Paid:		
Cash — $1.20 per share	$ 688,540	
2% stock dividend of 11,160 shares recorded at approximate market value	225,986	914,526
Balance June 30, 1960		$ 1,508,807

See notes to financial statements.

NOTES To Financial Statements

The accompanying consolidated financial statements include the financial statements of Kay Jewelry Stores, Inc. and its majority-owned subsidiary companies.

1. Investments in, and advances to, associated companies:

The items included under this caption consist of loans ($191,660) and investments ($360,621) in the capital stock of 12 associated store corporations. The equity in the net assets of these store corporations amounted to approximately $398,000 at June 30, 1960.

2. Federal income taxes:

Gross margin on instalment sales is taken into income at the time the sales are made, that is, on the accrual basis. Provision for federal income taxes is made on such gross margin, including that portion deferred for federal income tax purposes. The federal income tax provision for the year ended June 30, 1960, is $345,500 on the accrual basis as compared with $553,230 on the cash collection basis used in filing tax returns. The latter amount is included under current liabilities while the difference of $207,730 has been deducted from deferred federal income taxes.

3. 5½% note payable:

The loan agreement relating to the 5½% note payable contains certain restrictions relative to, among other things, the payment of cash dividends, purchase of the Company's capital stock and maintenance of consolidated current assets. The amount of retained earnings of the Company not restricted at June 30, 1960, was approximately $359,000.

4. Stock options and warrants:

The Board of Directors has granted five-year options to purchase 25,000 shares of the Company's common stock to the president of the Company. The option price is $19.80 a share, 110% of the market price at the date of grant, January 9, 1959. Options to purchase 5,000 shares became exercisable on January 9, 1960, and the remainder becomes exercisable one year thereafter.

In connection with the arrangement for the 5½% note payable, five-year warrants to purchase 25,000 shares of the Company's common stock were granted on January 31, 1959, to a non-affiliated corporation. The warrants may be exercised in whole but not in part at a price of $19.00 a share after January 31, 1960.

On October 15, 1959, the Company adopted a restricted stock option plan for the benefit of employees. Under the plan 35,000 shares have been reserved for issuance at a price which will be not less than 95% of the market value at the date of grant. At June 30, 1960 no stock options had been granted.

5. Long-term leases.

At June 30, 1960, companies included in the accompanying consolidated financial statements were lessees under 69 leases having terms of more than three years from that date with minimum annual rentals of $776,000 plus, in some cases, real estate taxes and, in certain instances, increased amounts based on percentages of sales. No individual lease is deemed significant in relation to the enterprise as a whole, the highest minimum annual rental being $35,000. Fifty-three of such leases expire prior to June 30, 1970.

ACCOUNTANTS' REPORT

TOUCHE, ROSS, BAILEY & SMART

CERTIFIED PUBLIC ACCOUNTANTS

CANADA
GREAT BRITAIN
AUSTRALIA
BELGIUM
FRANCE
GERMANY
HOLLAND
MEXICO
SWITZERLAND

CORRESPONDENTS IN
OTHER COUNTRIES

CABLE ADDRESS: TROBAS

615 TOWER BUILDING
WASHINGTON 5, D. C.

September 23, 1960

Board of Directors
Kay Jewelry Stores, Inc.

We have examined the consolidated balance sheet of Kay Jewelry Stores, Inc. and subsidiary companies as of June 30, 1960 and the related consolidated statements of earnings, additional paid-in capital, and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the consolidated financial position of Kay Jewelry Stores, Inc. and subsidiary companies at June 30, 1960, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche, Ross, Bailey + Smart

KAY JEWELRY STORES, INC.

1328 New York Avenue, N. W. • Washington 5, D. C.

DIRECTORS

OFFICERS

KAY

UNITY